# INDEX


| | Page |
|---|---|
| Opinion below | 1 |
| Jurisdiction | 1 |
| Questions presented | 2 |
| Statute involved | 2 |
| Statement | 3 |
| Summary of argument | 9 |
| Argument | 13 |
| I. This Court's decision in *United States* v. *General Electric Company* that a patentee may fix the sales prices of its licensees is erroneous and should be overruled | 13 |
| Introduction | 13 |
| A. The *General Electric* holding that price-restrictive licensing is authorized by the patent law was erroneous | 18 |
| 1. The right to fix a licensee's price is not a lesser included right logically implicit in the patent grant | 19 |
| 2. The right to fix a licensee's price cannot be justified as a "reasonable" corollary of the patentee's power to exclude | 23 |
| 3. Price restraints cannot be justified on the ground that they encourage licensing and thereby benefit competition | 28 |




785-229—65——1

Argument—Continued
I. This Court's decision etc.—Continued Page
B. The public interest in overruling *General Electric* outweighs considerations of *stare decisis*..... 38
C. This Court should not decline to overrule *General Electric* because of the district court's finding that the government stated that it was not seeking such overruling..... 46
II. In any event, the agreement that Townsend would follow Huck's prices as long as it remained the sole licensee, and that Huck would grant no other licenses as long as Townsend followed its prices, was an illegal restraint of trade which *General Electric* does not sanction..... 49
Conclusion..... 51

CITATIONS

Cases:
*American Equipment Co.* v. *Tuthill Bldg. Material Co.*, 69 F. 2d 406..... 42
*Associated Press* v. *United States*, 326 U.S. 1.. 51
*Barber-Colman Co.* v. *National Tool Co.*, 136 F. 2d 339..... 42
*Bauer* v. *O'Donnell*, 229 U.S. 1..... 16
*B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495.... 15, 24
*Bement* v. *National Harrow Co.*, 186 U.S. 70... 14, 15, 16, 17, 18, 21
*Bloomer* v. *McQuewan*, 14 How. 539..... 20
*Blount Mfg. Co.* v. *Yale & Towne Mfg. Co.*, 166 Fed. 555..... 50
*Boston Store* v. *American Graphophone Co.*, 246 U.S. 8..... 16

Cases—Continued


| | Page |
|---|---|
| *Brulotte* v. *Thys*, 379 U.S. 29 | 49 |
| *Carbice Corp. of America* v. *American Patents Development Corp.*, 283 U.S. 27 | 15 |
| *Cummer-Graham Co.* v. *Straight Side Basket Corp.*, 142 F. 2d 646 | 42 |
| *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436 | 15, 39, 43 |
| *General Electric Co.* v. *Willey's Carbide Tool Company*, 33 F. Supp. 969 | 42 |
| *Henry* v. *A. B. Dick Co.*, 224 U.S. 1 | 15, 21 |
| *Hormel* v. *Helvering*, 312 U.S. 552 | 48 |
| *International Business Machines Corp.* v. *United States*, 298 U.S. 131 | 15 |
| *International Salt Co.* v. *United States*, 332 U.S. 392 | 15 |
| *Kendall* v. *Winsor*, 21 How. 322 | 24 |
| *Klor's* v. *Broadway-Hale Stores*, 359 U.S. 207 | 51 |
| *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458 | 15 |
| *Leeds & Catlin Co.* v. *Victor Talking Machine Co.*, 213 U.S. 325 | 15 |
| *Luckett* v. *Delpark*, 270 U.S. 496 | 20 |
| *McCullough* v. *Kammerer Corp.*, 166 F. 2d 759, certiorari denied, 335 U.S. 813 | 36 |
| *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 | 15, 21 |
| *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488 | 15 |
| *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 | 10, 15, 16, 18, 21, 26 |
| *Newburgh Moire Co.* v. *Superior Moire Company*, 237 F. 2d 283 | 39, 41 |
| *Northern Pacific R. Co.* v. *United States*, 356 U.S. 1 | 19 |
| *Pfotzer* v. *Aqua Systems, Inc.*, 162 F. 2d 779 | 36 |
| *Standard Oil Co.* v. *United States*, 283 U.S. 163 | 51 |

Cases—Continued


| | Page |
|---|---|
| *Standard Sanitary Mfg. Co.* v. *United States*, 226 U.S. 20 | 16 |
| *Straight Side Basket Corp.* v. *Webster Basket Co.*, 82 F. 2d 245 | 42 |
| *Straus* v. *Victor Talking Machine Co.*, 243 U.S. 490 | 16 |
| *United States* v. *Allegheny Ludlum Steel Corp.*, Civ. 45–83, D.N.J. | 44 |
| *United States* v. *American Optical Co.*, Civ. 10–391, S.D.N.Y. | 44 |
| *United States* v. *Austenal Laboratories, Inc.*, Civ. 50–496, S.D.N.Y., 1949 | 44 |
| *United States* v. *Bausch & Lomb Optical Co.*, Civ. 10–394, S.D.N.Y. | 43 |
| *United States* v. *Besser Manufacturing Company*, 96 F. Supp. 304, affirmed, 343 U.S. 444 | 50 |
| *United States* v. *Catalin Corp. of America*, Civ. 7743, D.N.J. | 43 |
| *United States* v. *Columbia Steel Co.*, 334 U.S. 495 | 2 |
| *United States* v. *Driver-Harris Co.*, Civ. 942–56, D.N.J., 1956 | 44 |
| *United States* v. *du Pont & Co.*, 353 U.S. 586 | 2 |
| *United States* v. *General Cable Corp.*, Civ. 40–76, S.D.N.Y. | 44 |
| *United States* v. *General Electric Co.*, 80 F. Supp. 989 | 42, 44 |
| *United States* v. *General Electric Co.*, 82 F. Supp. 753 | 42, 44 |
| *United States* v. *General Electric Co.*, 272 U.S. 476 | 2, 9, 11, 12, 13, 14, 16, 17, 18, 23, 28, 29, 38, 39, 40, 42, 43, 44, 45, 47, 48, 49, 50, 51 |

Cases—Continued


| | Page |
|---|---|
| *United States* v. *General Instrument Corp.*, Cr. 3960, D.N.J. | 44 |
| *United States* v. *Krasnov*, 143 F. Supp. 184, affirmed, 355 U.S. 5 | 36, 45, 50 |
| *United States* v. *Line Material Co.*, 333 U.S. 287 | 10, 11, 14, 24, 27, 35, 38, 39, 40, 43, 51 |
| *United States* v. *Masonite Corp.*, 316 U.S. 265 | 19, 24, 29, 39, 41 |
| *United States* v. *McKesson & Robbins*, 351 U.S. 305 | 19 |
| *United States* v. *Michigan Tool Co.*, Crim. 33671 and Civ. 12605, E.D. Mich., 1953 | 44 |
| *United States* v. *Minnesota Mining & Mfg. Co.*, Civ. 8–119, D. Mass., 1949 | 44 |
| *United States* v. *Minnesota Mining & Mfg. Co.*, Crim. 61–73–D, E.D. Ill., 1961 | 45 |
| *United States* v. *New Wrinkle, Inc.*, 342 U.S. 371 | 39, 41, 43 |
| *United States* v. *Phillips Screw Co.*, Civ. 47–C–147, N.D. Ill. | 44 |
| *United States* v. *Robertshaw-Fulton Controls Co.*, Civ. 14745, W.D. Pa., 1956 | 45 |
| *United States* v. *Scott & Williams, Inc.*, Civ. 54–358, S.D.N.Y., 1949 | 44 |
| *United States* v. *Socony-Vacuum Oil Co.*, 310 U.S. 150 | 19 |
| *United States* v. *Terminal Railroad Assn.*, 224 U.S. 383 | 51 |
| *United States* v. *United States Gypsum Co.*, 333 U.S. 364 | 39, 41, 43 |
| *United States* v. *United States Gypsum Co.*, 340 U.S. 76 | 41 |
| *United States* v. *Univis Lens Co., Inc.*, 316 U.S. 241 | 24, 39, 43 |

Cases—Continued

| | Page |
|---|---|
| *Westinghouse Electric* v. *Bulldog Electric Products Co.*, 179 F. 2d 143 | 41 |
| *Wilson* v. *Sanford*, 10 How. 99 | 20 |

Constitution, statutes and rules:

| | |
|---|---|
| U.S. Constitution, Art. I, Sec. 8 | 19 |
| Patent Act, 35 U.S.C. 1, *et seq.*: | |
| 35 U.S.C. 154 | 19 |
| 35 U.S.C. 261 | 20 |
| 35 U.S.C. 281 | 20 |
| Sherman Act, Section 1, 26 Stat. 209, as amended, 15 U.S.C. 1 | 2, 3 |
| Section 2 | 3 |
| Rule 41(b), Federal Rules of Civil Procedure | 4 |

Miscellaneous:

| | |
|---|---|
| Baker, *Patent Rights and the Antitrust Laws*, 34 J.P.O.S. 687 (1952) | 40 |
| Celler, *Patents and Monopoly*, 38 J.P.O.S. 425 (1956) | 40 |
| Clapp, *Some Recent Developments in Patent-Antitrust Law*, 36 Marquette L. Rev. 143 (1952), 34 J.P.O.S. 945 | 40 |
| Diggins, *The Patent-Antitrust Problem*, 53 Mich. L. Rev. 1093 (1955) | 40 |
| Farley, *Price Fixing and Royalty Provisions in Patent Licenses*, 34 J.P.O.S. 46 (1952) | 40 |
| Furth, *Price-Restrictive Patent Licenses Under the Sherman Act*, 71 Harv. L. Rev. 815 | 16 |
| Gibbons, *Price Fixing in Patent Licenses and the Antitrust Laws*, 51 Va. L. Rev. 273 | 22 |
| Hollabaugh, *Patents and Antitrust Laws*, 25 Univ. Cinc. L. Rev. 43 (1956) | 39 |
| Kligler, *Recent Judicial Limitation of the Patent License Contract*, 30 J.P.O.S. 685 (1948) | 40 |
| Mulford, *Special Problems in Licensing Patents in the United States*, 39 J.P.O.S. 395 (1957) | 40 |

Miscellaneous—Continued


| | Page |
|---|---|
| *Report of the Attorney General's National Committee to Study the Antitrust Laws* (1955) | 23, 26 |
| Swain, *Patents and Antitrust—Some Recent Developments*, 43 J.P.O.S. 251 (1961) | 40 |
| Williams, *Conflicting Landmark Decisions on Restrictive Patent Licenses; Package Patent Licensing and Acquisitions*, 46 Chi. Bar Rec. 312 | 39 |
| Wood, *Patent Combinations and the Anti-Trust Laws*, 17 George Washington Law Rev. 59 (1948) | 40 |
| Wood and Johnson, *Patents and the Antitrust Laws*, Univ. Ill. L. Forum 544 (1950) | 40 |

# In the Supreme Court of the United States

OCTOBER TERM, 1965

No. 8

UNITED STATES OF AMERICA, APPELLANT

*v.*

HUCK MANUFACTURING COMPANY AND TOWNSEND COMPANY

*ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MICHIGAN, SOUTHERN DIVISION*

## BRIEF FOR THE UNITED STATES

### OPINION BELOW

The opinion of the district court (R. 700) is reported at 227 F. Supp. 791.

### JURISDICTION

The judgment of the district court was entered on July 17, 1964, *nunc pro tunc* as of February 28, 1964. Notices of appeal were filed by the United States on April 27, 1964, and on August 13, 1964.[1] This Court

[1] Appellant erroneously believed that the district court had entered judgment on February 28, 1964, and filed its notice of appeal therefrom. After appellant learned, and pointed out to the court below, that in fact no such judgment had been en-



785-220 65 2

noted probable jurisdiction on January 18, 1965 (R. 782; 379 U.S. 956). The jurisdiction of this Court is conferred by Section 2 of the Expediting Act of February 11, 1903, 32 Stat. 823, as amended, 15 U.S.C. 29. *United States* v. *du Pont & Co.*, 353 U.S. 586; *United States* v. *Columbia Steel Co.*, 334 U.S. 495.

## QUESTIONS PRESENTED

1. Whether this Court should overrule the holding in *United States* v. *General Electric Company*, 272 U.S. 476, that a license to make a patented article on condition that the licensee maintain its prices at a level set by the patentee, does not violate the Sherman Act.

2. Whether, if *General Electric* is not overruled, an agreement by a patentee not to grant additional licenses as long as its licensee follows the prices which it sets, contravenes section 1 of the Sherman Act.

## STATUTE INVOLVED

Section 1 of the Sherman Act, 26 Stat. 209, as amended, 50 Stat. 693, 69 Stat. 282, 15 U.S.C. 1, provides in pertinent part:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal * * *.

---

tered, the district court, on July 17th, entered judgment *nunc pro tunc* as of February 28th. As a protective measure, the United States filed an additional notice of appeal on August 13, 1964.

## STATEMENT

1. This is a direct appeal from a final judgment of the district court dismissing the government's civil antitrust suit against Huck Manufacturing Company ("Huck") and Townsend Company ("Townsend"). The complaint alleged that the two companies had violated Sections 1 and 2 of the Sherman Act by restraining trade and conspiring to monopolize the manufacture and sale of patented lockbolts,[2] which are metal fastening devices used principally in the construction of aircraft (Finding No. 7, R. 706). The basic charge was that Huck (the patentee) and Townsend, its licensee, had agreed that Townsend would sell the patented products at the prices and on the terms and conditions fixed by Huck, and that Huck would issue no additional licenses under its patents. An earlier criminal proceeding[3] involving the same charge, had been dismissed by another district judge at the conclusion of the government's case on the ground that the facts established did not constitute violations of Section 1 of the Sherman Act without evidence that the advantage acquired by the defendants as a result of their agreements was more than a normal and reasonable reward to a patentee. The court did find, however, that the government had established, at least prima facie, that the parties had

[2] Huck is the owner of United States Patents Nos. 2,531,048 and 2,531,049, dated November 21, 1950, covering lockbolts (Finding No. 10, R. 707). The validity of these patents is not contested here.

[3] 214 F. Supp. 776.

made an oral agreement under which Townsend would observe Huck's published prices and Huck would withhold further licenses. By stipulation of the parties the record in the criminal case was introduced into evidence as the government's case-in-chief in this civil action. On that record Judge Machrowicz granted defendants' motions to dismiss under Rule 41(b), Federal Rules of Civil Procedure (R. 722).

Although the defense has not yet put in its case, Huck and Townsend vigorously deny the existence of the oral agreement to fix prices and maintain the exclusivity of Townsend's license.[4] The district court concluded that "upon the evidence submitted * * * the case at bar is in all material respects the same as and ruled by the decision in *U.S.* v. *General Electric Co.* * * * " (Conclusion VII, R. 721). It further ruled that "there is no violation of the Sherman Act by Huck's establishment of the prices, terms and conditions of sale for the patented lockbolts and the following thereof by the licensee Townsend, for it is established law under the *General Electric* case, that

[4] While the district court refers, in Finding No. 16 (R. 711), only to the "verbal agreement * * * which the Government contends was entered into," the last sentence of that same Finding appears to assume the existence of such oral concurrence:

"The verbal agreement was no more than the exercise by Huck of its right as the patent owner of the lockbolt patents to grant or extend an exclusive license to another (in this case, Townsend) for the unexpired term of those patents and to require as a condition thereof that its licensee sell the patented lockbolts, which it could legally manufacture only under license, upon the terms and conditions of sale and price established by Huck and the exercise by Townsend of its right to agree to and accept such a patent license."

it is not a violation of the Sherman Act for a licensee to follow the prices, terms and conditions of sale of the patent owner, by agreement to do so" (Conclusion III, R. 719).

2. The government's evidence established the following facts:

Huck manufactures lockbolts and sells them throughout the United States, primarily for use in aircraft construction (Findings Nos. 3, 7, R. 706). Its domestic sales of that product in 1960 amounted to approximately $3½ million (GX–80, R. 614). Townsend, which was a Pennsylvania corporation when this suit was filed, is now a division of Textron Industries, Inc., and manufactures lockbolts at plants in California and Pennsylvania (Findings Nos. 2, 4, R. 705, 706). Its lockbolt sales in 1960 were approximately $2,399,873 (GX–103, R. 643).

In the latter part of 1950, Townsend, without obtaining a license from Huck, began to manufacture and sell lockbolts in competition with Huck. Soon afterward, Townsend decided that it should not risk a suit for patent infringement brought by Huck, which might invalidate the patents and open the field to other fastener manufacturers (GX–95, R. 632); accordingly, it requested a lockbolt license from Huck. Huck refused the request, and brought an action for infringement against Townsend. The district court found the patents to be valid and infringed by Townsend, and the latter filed a notice of appeal on May 27, 1953 (Finding No. 12, R. 707; GX–25, R. 501).

Despite its legal victory, Huck remained apprehensive about the existence of Townsend as a competitor, and particularly about the possibility that Townsend might develop a fastener that would serve the same purposes as a lockbolt but not infringe Huck's patents (R. 56, 189, 190; GX–26, R. 502; GX–27, R. 503–507). Thus, when Townsend in 1953 again sought a license to manufacture and sell lockbolts, Huck gave the matter serious consideration. It made extensive analyses of the advantages and disadvantages of granting a license, noting, among other factors, that its position as the sole supplier of lockbolts placed it at a disadvantage in negotiating labor contracts; but, on the other hand, that unless there were price restrictions forbidding the licensee to sell appreciably below Huck's published prices the company could suffer badly in competition because of its high labor rates and other costs, and that Townsend appeared capable of producing and selling lockbolts at a price much lower than that of Huck (R. 55, 193; GX–27, R. 503–507). Townsend, for its part, recognized that to receive a license from Huck would be more advantageous than to have the patents invalidated on appeal because, with Townsend as the sole licensee, the two companies would be able to control the lockbolt market and discourage potential competitors (Findings Nos. 12, 13, R. 707, 708; R. 396, 397; GX–95, R. 632).

Negotiations between the two companies, looking toward the grant of a license to Townsend, began in the spring or summer of 1954 (R. 59). During that

period, at a meeting of the presidents of the two companies in the office of Huck's attorney in Detroit, there was a general discussion of the various provisions of the contemplated license. Royalties, patent validity, and licensing of improvements were all considered and tentative agreements reached as to each. In addition, the parties agreed that for a two-year period, Townsend would follow Huck's lockbolt prices and Huck would not license any other firms (R. 61–63). Toward the latter part of the meeting, the President of Townsend, Mr. Dickenson, asked the attorneys to leave the room, stating that the others wanted "to talk business" (R. 63).

The executives then continued negotiations. Mr. Dickenson stated that they all were aware that the proposed agreement did not satisfy either Townsend's desire for a license which would be exclusive for the life of the patents, or Huck's desire for a price maintenance provision covering the same period. He therefore proposed "a supplementary verbal agreement" whereby Townsend would observe Huck's published lockbolt prices during the life of the patents if Huck refrained from licensing potential competitors of Townsend (R. 66, 67). Mr. Armour, President of Huck, accepted this proposal, promising, in turn, that Huck would not issue further licenses (except for lockbolts of a type which neither company wished to produce) so long as Townsend continued to adhere to Huck's prices (Finding No. 16, R. 711; R. 67–70). Thus, in effect, the exclusive licensing

and price maintenance provisions were extended by verbal agreement for the life of the patents.[5]

On September 14, 1954, Huck and Townsend executed a written license agreement (GX–17, R. 469–474). Three days later they jointly stipulated to dismiss Townsend's appeal from the judgment in the infringement suit (Finding No. 12, R. 707–708; GX–33, R. 524, 525). Under the written terms of this contract, which was to run for the life of the patents, Townsend, at a stated royalty, granted a non-exclusive cross-license to Huck on any improvements on lockbolts developed or acquired by Townsend, as well as on lockbolt devices which were substitutes for Huck's

---

[5] Testimony as to the making of the oral agreement was given by a government witness, Robert Looker. Looker, stepson of Louis Huck, inventor of the lockbolt, had been employed by Huck from 1947 until 1956, at which time he was Vice-President in Charge of Sales, and supervisor, in conjunction with the firm's attorneys, of Huck's patent matters (R. 20, 21, 53). After leaving Huck, Looker assumed the presidency of Brown-Line Corporation, which manufactured fastening devices for aircraft interiors, and unsuccessfully sought a license from Huck for lockbolts not manufactured by Huck (R. 157; GX–60), R. 559). Brown-Line Corporation subsequently filed an action against Huck and Townsend seeking treble damages for alleged violations of the Sherman Act.

Looker testified that he was present at the meeting which culminated in the verbal agreement described above (R. 59).

The court below indicated some dissatisfaction with Looker's testimony, on the basis of his interest in the outcome of the litigation and suggested some circumstantial inconsistencies in the testimony (Finding No. 15, R. 709, 710). But the court did not find that Looker's testimony was untruthful, and in the criminal trial Judge Kaess, who actually heard and saw the witness, found that the agreement was proved *prima facie* (214 F. Supp. at 777).

lockbolts; Huck agreed to make its license to Townsend exclusive for the first two years, while Townsend agreed, during the same two-year period, not to sell below the prices on lockbolts set by Huck's published schedules (Finding No. 14, R. 708, 709; GX–17, R. 469–474).[6]

Since that time, as the court below found, Huck has granted no additional licenses for the manufacture and sale of the general line of lockbolts (Finding No. 22, R. 712).[7] And Townsend has in fact maintained its prices substantially at the levels set by Huck (Finding No. 18, R. 711).

## SUMMARY OF ARGUMENT

### I

This Court's decision in *United States* v. *General Electric Co.*, 272 U.S. 476, that a patentee may lawfully condition a license to make and sell a patented article upon the licensee's maintenance of prices set by the patentee, was erroneous and should be over-

[6] Subsequently, Huck and Townsend entered into further agreements to cross-license products related to lockbolts. These were the Lockbolt Stump License of 1955 (GX–19, R. 476–480); the Blind Lockbolt License of 1958 (GX–72, R. 584–587); the Lockbolt Installation Tool Cross License of 1958 (GX–70, R. 567–574); and the Lockbolt Installation Tool Cross-Sales Agreement of 1958 (GX–71, R. 579–582) (Finding No. 23, R. 713).

[7] It has, however, granted two additional licenses to Pheoll Manufacturing Co. and Standard Pressed Steel Co. Both are limited to lockbolts made of titanium, a metal which neither Huck nor Townsend utilizes (Finding No. 22, R. 712). The government's witness testified that licenses of that limited nature were not foreclosed by the oral agreement (R. 67).

785–229—65——3

ruled, as four of the eight participating Justices voted to do in *United States* v. *Line Material Co.*, 333 U.S. 287, 315. This power to fix prices was said in *General Electric* to derive from the patent law, but there is nothing therein that grants such authority. Nor are there any other reasons of law or policy which justify retention of this exception to the general principle that price-fixing arrangements between competitors are illegal *per se*.

A. Under the patent law the patentee receives only the power to exclude. Thus, when the patentee enters into licensing agreements, he is not exercising any power granted by the patent laws, but only his general authority to enter into contracts disposing of his property. *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502. While the patent statute grants the power to prevent others from using a patented invention, it does not authorize a patentee to subject to his control the businessses of those whom he chooses not to exclude.

The power to charge a royalty permits the patentee to collect a bargained-for sum from users of the invention, which is a fair measure of its value. The power to control competitive activities of licensees, however, provides a means for imposing a burden upon the public out of proportion to the value of the invention. It deprives the public of cost savings or other competitive advantages which licensees might effect and which have no relation to the value of the invention.

The policy of the patent laws to promote invention

and discovery similarly provides no basis for extending the price-fixing privilege to patentees. The existence and extent of any relationship between the power to fix prices and the quantity or quality of research and development activities is remote and speculative. Moreover, any inducement to licensing that the price-fixing privilege may furnish does not convert it to a pro-competitive device. The opportunity to fix prices releases forces whose influences cannot be reliably gauged, and the fixing of prices has a pervasive and dangerous effect upon the economy. The reasons that led the Court to condemn price-fixing as unlawful *per se* also compel rejection of the claim that any spur to licensing provided by *General Electric* aids the competitive system more than the price-fixing hurts it. Moreover, there is no way to weigh (1) the gain in non-price competition which occurs whenever licenses are granted only because the price-fixing is permissible, against (2) the loss in competition which occurs whenever price-fixing is added to a license that would have been granted in any event.

A patentee's decision whether to license may turn upon many factors unrelated to his power to fix prices. Even a decision not to license does not necessarily injure competition in the long run. Furthermore, any appraisal of the effect of the *General Electric* rule upon competition must recognize that price-fixing licenses provide a convenient opportunity for abandoning competition. Thus, it is not only impossible to predict that competition will be benefitted by the addition of new productive sources, as the

*General Electric* rule presupposes, but one can never be sure that the license itself is not sought for the purpose of stabilizing prices rather than because it is needed to produce the patented product.

B. Considerations of *stare decisis* afford no basis for reaffirming *General Electric*. This Court's four-to-four decision in *Line Material* served notice on the business community seventeen years ago that *General Electric* was a doubtful precedent, and even before then its validity was uncertain. The rule has been so narrowed and its current scope is so doubtful that it no longer serves as a useful guide to the business community. As long as it remains on the books, however, *General Electric* inevitably will be both a source of confusion and a temptation to those who would utilize the doctrine as a colorable basis for anticompetitive practices.

C. This Court should not decline to overrule *General Electric* because of the district court's finding that the government stated that it was not seeking such overruling. The government raised in the district court all the issues that that court could decide; and since the court dismissed the complaint at the close of the government's case, appellees cannot claim that they were prejudiced because they refrained from introducing any evidence on those issues in reliance on a belief that the government would not challenge *General Electric*. Nor can they show that they were prejudiced because they would have followed different trial tactics and strategy if they had thought that the government would make such challenge.

II

Even if *General Electric* is not overruled, the agreement that Townsend would follow Huck's prices as long as it remained the sole licensee, and that Huck would not license others as long as Townsend followed its prices, constituted an unreasonable restraint of trade in violation of the Sherman Act. The agreement cannot be justified as "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly"—the touchstone of legality under *General Electric* (272 U.S. at 490)—since Townsend undertook to follow Huck's prices not in return for the right to use Huck's patents (which it would continue to have whether or not it followed such prices), but to assure that Huck would not license anyone else.

## ARGUMENT

### I.

### THIS COURT'S DECISION IN *UNITED STATES* V. *GENERAL ELECTRIC COMPANY* THAT A PATENTEE MAY FIX THE SALES PRICES OF ITS LICENSEES IS ERRONEOUS AND SHOULD BE OVERRULED

#### *Introduction*

1. In *United States* v. *General Electric Company,* 272 U.S. 476, this Court in 1926 upheld the validity of an arrangement by which the patentee granted a license to make and sell the patented article on condition that the licensee maintain its prices at a level set by the patentee. The Court ruled that such price-fixing was within the permissible scope of the patent

monopoly because it was "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly" (p. 490) and therefore did not violate the Sherman Act. In the 1947 Term, the government urged that *General Electric* should be overruled, but an equally divided court declined to do so. *United States* v. *Line Material Co.*, 333 U.S. 287. In the intervening years the scope—and indeed the current validity—of the *General Electric* rule has continued to be a subject of controversy. The present status of the rule is so uncertain that it provides neither an adequate guide to businessmen for planning patent arrangements nor sufficient certainty for effective antitrust enforcement. The government continues to believe that *General Electric* was wrongly decided, and that the *General Electric* rule has resulted in substantial injury to competition. In these circumstances, the government again urges the Court to reexamine *General Electric* and to overrule it.

2. At the outset, it is appropriate to summarize the legal background against which the *General Electric* case arose. It was not the first case in which the Court upheld the right of a patentee to control his licensee's price. The issue was first considered in *Bement* v. *National Harrow Co.*, 186 U.S. 70, decided in 1902. There the Court held valid an agreement between a patent holding company and a contributor to the pool, licensing the latter to make and sell patented harrows at not less than specified prices. The decision was based on the broad ground that "[t]he very object of these [patent] laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in

their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal" (186 U.S. at 93).

On the basis of similar reasoning, the Court later held that the patentee properly could require a licensee to use the patented product only in conjunction with certain unpatented materials which the patentee also supplied. *Henry* v. *A. B. Dick Co.*, 224 U.S. 1. That decision, too, was predicated on the theory that the patentee's statutory right to withhold his invention from the public altogether necessarily embraced the lesser right to allow its use on conditions of his own choosing (224 U.S. at 35). This reasoning, however, was short-lived. In *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, the Court overruled the *A. B. Dick* decision, holding that tying clauses in patent license agreements were illegal.[8] It declared (p. 514) that the theory that re-

[8] See also *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (overruling *Leeds & Catlin Co.* v. *Victor Talking Machine Co.*, 213 U.S. 325); *Carbice Corp. of America* v. *American Patents Development Corp.*, 283 U.S. 27. Today such restrictions, whether express or implied, and whether the tied article is patented or unpatented, violate both the patent and the antitrust laws. See *Leith Mfg. Co.* v. *Barber Co.*, 302 U.S. 458; *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436; *International Business Machines Corp.* v. *United States*, 298 U.S. 131; *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488; *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495; *International Salt Co.* v. *United States*, 332 U.S. 392.

strictive contract conditions were lesser-included restraints which the statutory patent monopoly permits, failed to "distinguish between the rights which are given to the inventor by the patent law * * * and rights which he may create for himself by private contract which, however, are subject to the rules of general as distinguished from those of the patent law." While the Court in *Motion Picture Patents* did not explicitly overrule the *Bement* decision, it "certainly shook the foundations on which the legality of price-restrictive licensing seemed to rest." See Furth, *Price-Restrictive Patent Licenses under the Sherman Act,* 71 Harv. L. Rev. 815, 819 (1958).

In another line of cases, the Court held that a patentee could not lawfully sell the patented articles to a licensee upon condition that the latter maintain resale prices prescribed by the licensor. *Bauer* v. *O'Donnell,* 229 U.S. 1; *Straus* v. *Victor Talking Machine Co.,* 243 U.S. 490; *Boston Store* v. *American Graphophone Co.,* 246 U.S. 8. The Court also struck down a patent licensing plan under which manufacturers and jobbers combined to fix prices and regulate competition. *Standard Sanitary Mfg. Co.* v. *United States,* 226 U.S. 20.

Thus, when the *General Electric* case came before the Court in 1926, the trend of decisions gave reason to believe that price-restrictive licensing would be held illegal, and the government argued that the *Bement* decision, already devitalized, should be finally interred (see 272 U.S. at 491).

Instead, the Court breathed new life into the *Bement* decision. The *General Electric* case, insofar

as is here pertinent, arose out of a government suit alleging that General Electric and Westinghouse—which together accounted for 85 percent of the nation's output of incandescent electric lamps—had entered into an agreement through which Westinghouse was licensed to make such lamps under General Electric's patents on condition that it sell them at prices fixed by the licensor. The Court held that this price-fixing provision was a valid exercise of the licensor's rights under the patent. The Court quoted with apparent approval the basic rationale of *Bement* set forth above (pp. 14–15), but supported its decision with somewhat different reasoning. Although *Bement* had stated that the patentee may license the sale of the patented product on whatever conditions he chooses "with few exceptions", the Court in *General Electric* stated that those conditions must be "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly" (at 490) and that their performance must be "reasonably within the reward which the patentee by the grant of the patent is entitled to secure" (at 489). The Court reasoned (at 490) that—

> One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem

> entirely reasonable that he should say to the licensee, "Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to attain by making them and selling them myself."

The Court distinguished *Motion Picture Patents* on the ground that a tying clause imposes a restraint upon products not covered by the patent grant, whereas the price at which a patented article sells is "certainly a circumstance having a more direct relation * * * to the rights of the patentee, than the unpatented material with which the patented article may be used" (p. 493). It distinguished the resale-price-maintenance cases on the ground that the first sale of the patented article (to the licensee) exhausts the patentee's monopoly and terminates his control over the article (at 493–494).

We submit that price restrictions in patent licenses cannot be justified either on the sweeping grounds of the *Bement* decision or on the more limited view adopted in *General Electric,* and that both approaches attribute to the patent monopoly a breadth which it simply does not have.

### A. THE *GENERAL ELECTRIC* HOLDING THAT PRICE-RESTRICTIVE LICENSING IS AUTHORIZED BY THE PATENT LAW WAS ERRONEOUS

There can be no doubt that, unless it is authorized by the patent law, a price maintenance agreement such as the one involved here (and in *General Electric*), is a *per se* violation of the Sherman Act. The appellees are competitors, and horizontal price-fixing arrangements "are all banned because of their actual or potential threat to the central nervous system of the

economy." *United States* v. *Socony-Vacuum Oil Co.*, 310 U.S. 150, 224, n. 59 at 226. They are the archetype of those "agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use." *Northern Pacific R. Co.* v. *United States*, 356 U.S. 1, 5. See, also, *United States* v. *McKesson & Robbins*, 351 U.S. 305, 309–310; *United States* v. *Trenton Potteries Co.*, 273 U.S. 392, 397. Nor is the combination any less illegal because the patentee has the assumed right to prescribe the price without consultation with his licensee. "The fixing of prices by one member of a group, pursuant to express delegation, acquiescence, or understanding, is just as illegal as fixing of prices by direct, joint action." *United States* v. *Masonite Corp.*, 316 U.S. 265, 276. The sole question, therefore, is whether a price-fixing combination otherwise banned by the Sherman Act is exempted from that prohibition by the patent statutes. We submit that those statutes have no such effect.

*1. The right to fix a licensee's price is not a lesser included right logically implicit in the patent grant*

Pursuant to the constitutional authority to give inventors "for limited Times * * * the exclusive Right to their * * * Discoveries" (Art. I, Sec. 8), the patent laws give the holder of a patent only "the right to exclude others from making, using, or selling the invention throughout the United States" (35 U.S.C.

154). See *Bloomer* v. *McQuewan*, 14 How. 539, 548. The Patent Act makes that right assignable (35 U.S.C. 261) and provides for its enforcement through patent infringement actions in the federal courts (35 U.S.C. 281). This narrow and limited monopoly is all that Congress has given. The patentee may, of course, enter into licensing contracts under which he agrees, in return for a royalty, to waive his statutory right of exclusion and to permit the licensee to utilize the patented invention free from the threat of an infringement suit. The right to make such agreements, however, stems not from the Patent Act itself but from the general law of contracts; as is true of most contracts, the rights of the parties are dependent upon State law and enforceable (in the absence of diversity) only in the State courts. See *e.g.*, *Luckett* v. *Delpark*, 270 U.S. 496; *Wilson* v. *Sandford*, 10 How. 99.

There is nothing in the Patent Act which purports to validate agreements which would otherwise be unlawful. And, specifically, nothing in the Act authorizes the patentee to demand, as a *quid pro quo* for waiving his right of exclusion, a price-fixing agreement plainly outlawed by the Sherman Act. In sum, when the patentee prescribes the terms and conditions on which he will refrain from enforcing his statutory monopoly, he acts solely by virtue of his right as the onwer of property to make contracts concerning that property; such a contract, like any other, is subject to the limitations imposed by the general law and is not exempted from those limitations by the

patent statute. Cf. *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 666.

The classic rationale for price-restrictive licensing is that the right to exclude others from using the patented invention logically and necessarily includes the lesser right to permit such use upon whatever conditions the patentee may prescribe. See *Bement* v. *National Harrow Co.*, 186 U.S. 70. As we have noted, this Court once relied upon a similar rationale to justify the inclusion of tying clauses in patent license agreements. See *Henry* v. *A. B. Dick Co.*, 224 U.S. 1, 35. That holding, however, and the reasoning on which it was based, was repudiated in *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502. There the Court specifically rejected the argument that the right to deny entirely implies the right to allow conditionally. "The defect in this thinking," it declared, "springs from the substituting of inference and argument for the language of the statute and from failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding and rights which he may create for himself by private contract which, however, are subject to the rules of general as distinguished from those of the patent law" (243 U.S. at 514). The same fallacy underlies the rule permitting price restrictions in patent licenses.

It is no answer to say that price restrictions, unlike tying clauses, do not extend the patentee's monopoly to products not embraced within the terms of the

patent grant. The fact remains that the right to regulate by contract the business of a competitor is not an integral or necessary part of the power to exclude. Moreover, any claim of a right to control the patentee's business decisions in marketing a patented item misconceives the scope of the patent claim. It ignores the distinction between (a) the patented invention or discovery, *i.e.*, the novel idea or concept which the patentee has contributed to the art, and (b) the concrete physical objects made and sold by his competitor pursuant to license. The patentee has a property right in the inventive idea or concept, but he has no such interest in the articles manufactured by the licensee. Even under existing law, the lower courts have held that a patentee may not fix the price of the licensee's unpatented end product when the patent covers only a component, constituent material, or a machine or process used in the manufacture of the product. See, *infra,* pp. 41–42; Gibbons, *Price Fixing in Patent Licenses and the Antitrust Laws,* 51 Va. L. Rev. 273, 290–292. This rule apparently applies without regard to the importance of the invention in producing the end product, for the reason that the patentee is not entitled to fix the price of anything other than his own invention.

For precisely the same reason, we submit, the owner of a patented invention should not be permitted to control the price at which another businessman sells articles which he manufactures and owns. For while such an article admittedly embodies the patentee's inventive contribution, it embodies much else besides.

It incorporates also the many factors of production and distribution contributed or assembled by the licensee himself—factors such as capital investment, productive technology, managerial skill, labor, materials, and sales organization. The market price of the article reflects not only the value of the patentee's idea, but also the economies which the licensee may have achieved through efficient organization, superior manufacturing techniques, enlightened labor relations, prudent and selective acquisition of raw materials, and improved distribution methods. The fact that the patentee is entitled to protection and compensation for his idea does not justify depriving the public of these cost savings or denying to it the benefits of competition in these other aspects of production and distribution. See *Report of the Attorney General's National Committee to Study the Antitrust Laws*, 235, 236 (1955) (dissenting remarks of Louis B. Schwartz).

There is therefore no sound basis in theory for regarding the price-fixing privilege as a "lesser included" right logically implicit in the statutory right to exclude.

*2. The right to fix a licensee's price cannot be justified as a "reasonable" corollary of the patentee's power to exclude*

*a.* The *General Electric* decision, as we have seen, rested on the view that "the patentee may grant a license * * * upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure" (272 U.S. at 489). A price-maintenance provision

was deemed justified because of the danger that the patentee might otherwise be undersold by a licensee and forced to reduce his own price, and thus could no longer receive a monopoly price for his own production. This approach plainly makes "the inventor's reward the prime rather than an incidental object of the patent system" (*Line Material,* 333 U.S. at 318 (concurring opinion)). It is incompatible with the principles, announced by this Court in many other cases, that the rights granted by a patent must be confined "strictly to the terms of the statutory grant" (*United States* v. *Univis Lens Co., Inc.,* 316 U.S. 241, 251); that the patent monopoly may not be enlarged merely because "it would be more convenient to the patentee to have it so, or because he cannot avail himself of its benefits within the limits of the grant" (*B. B. Chemical Co.* v. *Ellis,* 314 U.S. 495, 498); and that "the benefit to the public or the community at large," rather than the advantage of the patentee, was "the primary object in granting and securing that monopoly" (*Kendall* v. *Winsor,* 21 How. 322, 328). "As stated by Mr. Justice Story in *Pennock* v. *Dialogue,* 2 Pet. 1, 19, the promotion of the progress of science and the useful arts is the 'main object'; reward of inventors is secondary and merely a means to that end." *United States* v. *Masonite Corp.,* 316 U.S. 265, 278.

The power to exclude, which the patent laws give, is itself a fair and appropriate reward for the patentee's invention. If he chooses to remain the sole manufacturer, he reaps that reward in the form of monopoly profits on the protected sales. Presum-

ably that reward will vary with the commercial importance of the invention, which is as it should be. If, instead, he prefers to grant licenses, thereby shifting to others part of the risks of investment in production facilities, he receives a royalty in exchange. Again the royalty is presumably commensurate with the value of his invention, for it is the product of a free bargaining process.

In the event he chooses to manufacture and sell the patented product in competition with the licensee, he may or may not be able to protect his competitive position by fixing a royalty which increases the licensee's costs of production to a level at which he cannot underprice the patentee. In accordance with the usual operation of an open market, the licensee's willingness to concede that kind of protection will depend upon an appraisal of the value of the invention. Thus, the ability to adjust the royalty is not a complete substitute for price-fixing. Whenever the commercial value of the patent is not enough to overcome the patentee's relative inefficiency even at the highest obtainable royalty, he will still be at a competitive disadvantage. But this is just another way of saying that the invention is not important enough to enable this particular patentee to compete successfully, for competitors would prefer to forego a license and to compete by other means rather than to pay a higher royalty.

We submit that nothing in the purpose or policy of the patent law justifies permitting a patentee to obtain by means of a price-fixing agreement an immunity from competition which exceeds the advantage

that licensees are willing to concede in terms of royalties. "[I]f [the patentee's] discovery is an important one his reward * * * will be large, as experience has abundantly proved, and if it be unimportant he should not be permitted by legal devices to impose an unjust charge upon the public in return for the use of it." *Motion Picture Patents Co.* v. *Universal Film Mfg. Co., supra,* at 513. And a price-fixing agreement is exactly the kind of agreement to which a licensee might readily agree even if the patent is unimportant, for it may actually lower his royalty obligation while the public pays the larger toll.

To be sure, even if the patent is very valuable, so that the patentee has the ability to command a high royalty, he does not have the same measure of security which would be afforded by a price-fixing agreement. The possibility remains that he may have miscalculated the licensee's costs; that the licensee may be willing to accept a lower profit than the patentee had bargained for; or, most important, that the licensee, though burdened with a high royalty, may in the future develop cost-saving methods which will enable him to undersell the patentee despite the handicap of a high royalty. But the patentee's power to exclude is substantially different from and does not logically include the right to freeze these competitive possibilities. One leading authority has summed up the matter in these terms (*Report of the Attorney General's National Committee to Study the Antitrust Laws,* 235, 236 (1955) (dissenting remarks of Louis B. Schwartz)):

> A patentee obtains the exact value of his lawful monopoly on the invention when he exacts all the traffic will bear in the way of royalties, or by exercising his privilege to be the sole maker or seller. When the patentee seeks, in addition, to control his licensee's prices it must be because he fears that the advantage which he has in technology is more than over-balanced by his competitor's advantages in plant efficiency, management, labor relations, and cost of materials, so that whatever he charges in the way of royalties will still leave his competitor in a position to sell for less. But there is no justification for depriving the public of the benefits of competition in all these other aspects of production and distribution merely because the patentee is entitled to a protected price for his inventive contribution. * * *

*b.* It is sometimes argued that the basic objective of the patent laws is to promote invention and discovery, and that the rewards of price-fixing serve as an important stimulus to that end.[9] Even if the price-fixing privilege did serve that end, it still would not overcome the fact that the Constitution and the patent statutes give the patentee the power to exclude, and not any guarantee of profit (see *supra*, pp. 19–21). Furthermore, although a court might be able to ascertain whether the authority to fix prices was a significant factor in inducing a particular patentee to undertake research, the determination whether patentees as a class would be deterred from research

[9] See Mr. Justice Burton's dissent in *Line Material*, 333 U.S. at 350–352.

if denied that power is a matter properly for legislative rather than judicial cognizance. There are compelling economic forces which, wholly apart from any hope by patentees that their profits will be increased through price-fixing provisions in patent licenses, will induce manufacturers to undertake substantial research. These include the need to keep up with or ahead of competitors, the fear of being pre-empted by a rival's patents, and the hope of earning royalties from the patents. For a court to attempt to resolve that issue—*i.e.* to determine whether the diminution in research that the *General Electric* rule may avoid outweighs the injury to competition that that rule causes—would unwisely embroil the judiciary in a highly conjectural and speculative inquiry.

*3. Price restraints cannot be justified on the ground that they encourage licensing and thereby benefit competition*

It is sometimes argued that the right to control a licensee's prices should not be treated as other price-fixing arrangements because such a right ultimately benefits, rather than injures, competition. The argument is that since the patent law gives the patentee a monopoly, a rule which results in the encouragement of licensing is justified because every license creates some competition which would not otherwise exist. Thus appellees argue that the "probabilities are that public interest would be advanced by inducing a patentee to create a needed second manufacturing source of the patented article" (Mot. to Affirm, p. 31). As we show below, this argument is wholly conjectural, and such speculation provides no justification for per-

mitting a patentee to engage in a practice that has as clear an anticompetitive effect as price-fixing has. As the Court said in a related context, the power of the patentee to fix the price at which its licensees sell their patented product:

> is a powerful inducement to abandon competition. The extent to which that inducement in a given case will have or has had the desired effect is difficult, if not impossible, of measurement. The forces which that influence puts to work are subtle and incalculable. * * * It is outside our competence to inquire whether the result was or was not beneficent, or whether the evil was or was not realized. As in case of an appraisal of the reasonableness of prices which are fixed, such a determination could satisfactorily be made 'only after a complete survey of our economic organization and a choice between rival philosophies' (*United States* v. *Trenton Potteries Co., supra,* 273 U.S. at p. 398) and only after weighing a host of intangibles. *United States* v. *Socony-Vacuum Oil Co., supra.* The power of this type of combination to inflict the kind of public injury which the Sherman Act condemns renders it illegal *per se.* [*United States* v. *Masonite Corp.,* 316 U.S. 265, 281.]

a. The argument that the *General Electric* rule induces some patentees to grant licenses who would not otherwise do so, and that the non-price competition thereby created is better than no competition at all, provides no valid basis for concluding that the rule results in a net gain for competition. The rule also per-

mits some patentees to fix prices who would otherwise grant licenses without such restraints. There is no possible basis for measuring the price competition that is lost in the latter cases against the non-price competition that is gained in the former, short of a census of all patent licenses containing price-fixing provisions and a method of measuring the importance of the commerce affected by the patentee's decision. For instance, the decision of the owner of a basic important patent would be far more significant than the decisions of a large number of owners of gadget patents. And it is apparent that there is nothing in the nature of the available choice that would permit a prediction as to which choice would be made by the owners of any particular type of patent.

Moreover, there is no way of demonstrating that in any large number of cases the option to price-fix is the decisive consideration in granting or denying a license. The decision whether to license necessarily turns upon many factors, both pro and con, and there are many reasons why a patentee may decide to share his invention even though he cannot control the licensee's prices.

*First,* the patentee's productive capacity may be too small to meet the expected needs of the market. For him to make an additional large investment may involve a risk he is unwilling to take, or he may even be unable to secure the capital. In such cases, he may conclude that the royalties from licensing would exceed the sales profits which would be lost through competition, including price competition by the licensee.

*Second,* the patentee's customers may demand that he license additional suppliers in order to relieve the pressure on his capacity, speed up delivery schedules, and provide more dependable service. Unless satisfied, these customers may abandon the patented product and seek out alternatives.

*Third,* the patentee, though willing and able to meet existing demand, may find it desirable to license other suppliers in order to promote the sale of the patented product more widely and thus stimulate new demand. Rapid cultivation of the market through licensing is particularly important in dynamic industries where technological progress threatens to make any invention obsolete within a relatively few years.

*Fourth,* the patentee may be motivated to license competitors because of doubt as to the validity, coverage or competitive strength of his patent. He may fear that unless he makes his invention available to competitors on a royalty basis, they will seek to invalidate the patent, show that it is not infringed, or circumvent it by developing superior or less expensive substitutes.

Many of these factors were operative in the present case and influenced Huck's decision to grant Townsend a license. In assessing the wisdom of this action, Huck's vice president noted (R. 503–505) that more than one source was required in order to develop a greater over-all market; that royalty income would be of appreciable benefit and would require no capital expenditure; that a second source might hasten the development and expansion of production of tools to apply the patented bolts, the scarcity of which was

Huck's greatest sales drawback; that Townsend already had considerable capital invested in the product and might try, through re-development, to avoid the patents; that Townsend threatened to appeal from the adverse decision in Huck's patent infringement suit and there was a possibility that the patents would be declared invalid and/or not infringed by the Townsend construction (R. 505); and that it was probable that such a license would deter Townsend from any continuing development to circumvent Huck's patent.

But even in those cases where the price-fixing option might be decisive in the patentee's determination, it cannot be assumed that the grant of the price-fixing license results in a net gain to competition. In today's complex technology, hardly a product exists which is not being made in some closely substitutable form by active competitors, and they are likely to be the most frequent applicants for licenses. To the extent that a competitor shifts from producing such a substitute product, with respect to which competition is unrestricted, to the new patented product as to which there will be no price competition, there would hardly appear to be any net gain in competition.

Indeed, a good case can be made that the grant of a price-fixing license in such circumstances is most likely to result in a net loss to competition. For even if the shift from a substitute product is viewed as pro-competitive, the over-all effect might still be anti-competitive. The license has two possibly useful effects: (1) a second source of production has been added, with non-price competition a possibility; and (2) upon the expiration of the patent monopoly

a second source of supply will be available, already equipped and experienced in production. Neither of these results is necessarily of substantial competitive significance, however.

In appraising the competitive significance of a second source of supply with price restraints, it must be borne in mind that we are assuming the case of a patentee who would deny all licenses rather than permit price competition. But such a patentee presumably would be equally unlikely to grant licenses that have price-fixing provisions if he believed that the licensees would be likely to divert any substantial amount of existing or potential business. Similarly, it is doubtful that a patentee would be likely to grant a license which would establish a competitor for the period after the patent had expired, if he thought this would create real competition. In the rare cases where a patent actually could provide complete domination of a market for 17 years, it is doubtful that the price-fixing option would induce the patentee to license.

As against the dubious benefits which a license might provide for competition, there must be weighed the fact that the mere acceptance of a license may have a deterrent effect on other potential competitors. In the present case, for example, one of the considerations which influenced Townsend's attorneys to recommend the acceptance of a license from Huck was that "it might be possible by such a license agreement to control the lockbolt business and limit it to Huck and Townsend. Such a limitation would be preferable to a legal action which would invalidate the patents and

which, by the same act, would open the field to other manufacturers of fasteners. A license agreement would certainly discourage them from going into the field" (GX–95, R. 632–633). Thus, if the patent is in fact one which could not survive attack, licensing not only fails to "open up" significant competition between the patentee and the licensee themselves, but in addition removes the likelihood of a challenge by those most likely to attack the patent, and leaves it standing as a deterrent to other potential competitors. Moreover, to the extent that the license helps to provide a second source for customers, plus additional productive facilities, the attractiveness of the market is substantially reduced for other potential competitors, who might otherwise be prepared to challenge the patent or invent around it. In such circumstances, if the license contains restrictions suppressing price competition, the resulting direct injury to competition is obviously not offset by any increase in non-price competition.

b. Where the patent is both valid and sufficiently broad to exclude all commercially acceptable substitutes, and the patentee would not otherwise have granted any licenses, the granting of a price-fixing license admittedly makes the product available from another source. But that does not mean that competition is thereby increased. For competition involves a significant time factor, and in the long run it might be better served through vigorous efforts to bypass the patent by developing new products and methods—efforts which may be deterred by the acceptance of a license

under the existing patent. Thus, in the present case, Huck's vice-president thought it "probable that such a license would deter [Townsend] from any continuing development to circumvent our patent protections" (R. 506). Here again, the long-term impact upon competition of removing incentives to circumvent the patent would seem too high a price to pay for the benefit of creating non-price competition in the sale of the patented product.

As Mr. Justice Douglas pointed out in his concurring opinion in *Line Material* (333 U.S. at 319), the offering of a price-fixing license is "a powerful inducement for the abandonment of competition, for the cessation of litigation concerning the validity of patents, for the acceptance of patents no matter how dubious, for the abandonment of research in the development of competing patents." Countermoves of the non-patentee when he is denied a license are a feature of the patent system which have a beneficial effect upon the competitive system. In deciding whether inducements shall be offered to patentees to grant licenses in the interest of encouraging competition, the loss of such counter-moves also must be weighed.

The above analysis assumes that the licensee derives no benefit from the price restrictions themselves and is motivated to accept a license by his desire either to avoid an infringement suit or to produce the patented article in preference to his own. On those assumptions, the considerations discussed above are equally applicable whether the patentee licenses a

single competitor, as in the present case, or many competitors. There is still another class of cases, however, in which restrictive licensing unquestionably injures competition—notably, those in which the licensee, though neither fearing an infringement suit nor preferring the patentee's product, accepts a license solely to secure the benefit of the price restrictions themselves. When several competitors are licensed, each benefits from the renunciation of price competition by the others, and therefore each has an incentive to accept the burdens of the license even though convinced that the patent is invalid and/or that his own product does not infringe and is at no competitive disadvantage.

The competitive situation is but slightly different when only a single license is granted. Since a price-maintenance provision restrains only the licensee, not the patentee,[10] a sole licensee does not get the benefit of anyone else's price-fixing commitment. He does, however, gain practical advantages which may be equally valuable. Realistically, there is little likelihood that the patentee will engage in price-cutting, since the whole purpose of the price-maintenance provision is to protect his monopoly price. Moreover, the patentee knows that if he reduces his price to a level unacceptable to the licensee, the latter remains

[10] A restraint on the freedom of competition by the patentee would plainly be illegal; it could not even arguably be justified in terms of the patent law. See *McCullough* v. *Kammerer Corp.*, 136 F. 2d 759 (C.A. 9), certiorari denied, 335 U.S. 813; *Pfotzer* v. *Aqua Systems, Inc.*, 162 F. 2d 779 (C.A. 2); *United States* v. *Krasnov*, 143 F. Supp. 184, 197–198 (E.D. Pa.), affirmed *per curiam*, 355 U.S. 5.

free to attack the patent or resume production of his own non-infringing product. Thus, even without an explicit commitment in the license, the patentee is not likely to make an important price change without discussing, and perhaps clearing, it with the licensee.

What the price-fixing provisions do is to provide a mechanism, or legal excuse, for continuing communication and exchange of information between the parties with regard to prices. Normally, there is also a set price list to which both parties are expected to adhere until further notice from the patentee, and which is bound to be a limiting factor on price movements. In sum, through the medium of the price-maintenance provision, and its administration, the parties are able to stabilize prices to a degree which otherwise would have been impossible.[11] This stabilization may often be worth more to the licensee than permission to make the patented product, and to secure it he may be willing to accept a license even though he has no fear of being excluded from the market. Here, as in the multi-license situation, price-fixing may be the *raison d'etre* of the agreement, and price competition may be suppressed though the patent itself has no power to restrain.

[11] Moreover, the ability to make a binding promise to follow the patentee's price, no matter how high it goes, may be of benefit to the licensee, as well as to the patentee. But for such a commitment, each party may hold his price down for fear that the other will underprice him if he raises it. The licensee's agreement frees the patentee from this uncertainty and enables him to raise his price with assurance that the licensee will follow, and this is an assurance which the licensee may obviously be happy to provide.

### B. THE PUBLIC INTEREST IN OVERRULING *GENERAL ELECTRIC* OUTWEIGHS CONSIDERATIONS OF *STARE DECISIS*

We have shown that *General Electric* was erroneously decided and that the rule it established is one which frustrates antitrust policy without furthering the objectives of the patent law. There remains only the question whether the reasons for overruling the decision are outweighed by the desirability of adhering to precedent. Here, as in *Line Material*, it may be argued that businessmen have shaped their licensing arrangements in reliance on *General Electric*, and that it would be unfair to defeat their expectations. We submit, however, that in this instance considerations of *stare decisis* are of minimal weight, while the public interest in eliminating this unsound precedent is substantial.

1. *General Electric* has long since ceased to be a vital precedent. Seventeen years ago, in *Line Material*, four of the eight participating Justices took the position that *General Electric* was incorrect and should be overruled. At that time, the Court was understandably reluctant to disturb business arrangements which had been made—though even then only "hesitatingly"—in reliance upon the earlier decision (333 U.S. at 303). Today, however, there is no reason for such concern. The views expressed by the concurring Justices in *Line Material* served notice upon the business community, and upon members of the patent and antitrust bars, that *General Electric* could no longer be relied upon. All patents issued prior to *Line Material* have now expired;[12] and hence

[12] The life of a patent is seventeen years, and *Line Material* was decided on March 8, 1948.

all price-restrictive licenses currently in effect were entered into after *Line Material* and with full notice of the risks involved.

Moreover, the scope of the *General Electric* doctrine has been sharply curtailed by subsequent decisions of this Court and of the lower federal courts.[13] Legal writers have repeatedly noted that the *General Electric* decision has been "whittled away by subsequent decisions to a mere shadow of its former self."[14] These commentators have voiced doubt as to its continuing authority and counseled against relying on it. One observer, writing in 1956, declared:

> The present day scope of the GE doctrine is so narrow as to be of almost no practical use to a patent owner and the dangers are too great to risk if the owner attributes any substantial value to his patents.
>
> * * * * *
>
> Under these circumstances [*Line Material* and the subsequent trend of decisions], any reliance on the doctrine is, to say the least, a hazardous undertaking which may leave the patent owner in a precarious position from the standpoint of treble damage suits and the enforcement of his patents against infringers.[15]

---

[13] *E.g.*, *United States* v. *New Wrinkle, Inc.*, 342 U.S. 371; *United States* v. *United States Gypsum Co.*, 333 U.S. 364; *United States* v. *Univis Lens Co., Inc.*, 316 U.S. 241; *United States* v. *Masonite Corp.*, 316 U.S. 265; *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436; *Newburgh Moire Co.* v. *Superior Moire Company*, 237 F. 2d 283 (C.A. 3).

[14] Williams, *Conflicting Landmark Decisions on Restrictive Patent Licenses; Package Patent Licensing and Acquisitions*, 46 Chi. Bar Rec. 312, 317 (1965).

[15] Hollabaugh, *Patents and Antitrust Laws*, 25 Univ. Cinc. L. Rev. 43, 64, 65 (1956).

And in 1950, only two years after *Line Material*, General Electric's general counsel warned that "the net effect is so to limit the commercial utility of price restrictions while enhancing unpalatable legal consequences that their use is seriously discouraged." Wood and Johnson, *Patents and the Antitrust Laws*, Univ. Ill. L. Forum 544, 564 (1950).[16]

In this process of limiting the *General Electric* doctrine, there has arisen considerable uncertainty as to its proper application, i.e., as to the precise circumstances in which price conditions are "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." Two examples will serve to illustrate this generalization.

a. Decisions subsequent to *General Electric* raise serious doubts as to whether a patentee may ever grant two or more similar price-fixing licenses. This Court repeatedly has held that *General Electric* does not authorize concerted action by a patentee and his licensees to regulate the prices of an entire industry

[16] See also Wood, *Patent Combinations and the Anti-Trust Laws*, 17 George Washington Law Review 59 (1948); Diggins, *The Patent-Antitrust Problem*, 53 Mich. L. Rev. 1093 (1955); Clapp, *Some Recent Developments in Patent-Antitrust Law*, 36 Marquette L. Rev. 143 (1952); 34 J.P.O.S. 945; Farley, *Price Fixing and Royalty Provisions in Patent Licenses*, 34 J.P.O.S. 46 (1952); Baker, *Patent Rights and the Antitrust Laws*, 34 J.P.O.S. 687 (1952); Swain, *Patents and Antitrust—Some Recent Developments*, 43 J.P.O.S. 251 (1961); Kligler, *Recent Judicial Limitaton of the Patent License Contract*, 30 J.P.O.S. 685 (1948); Mulford, *Special Prablems in Licensing Patents in the United States*, 39 J.P.O.S. 395 (1957); Celler, *Patents and Monopoly*, 38 J.P.O.S. 425 (1956).

through multiple restrictive licenses,[17] and it has ruled that such illegal concerted action is established by proof that substantially identical "industry-wide [price-fixing] license agreements [were] entered into with knowledge on the part of licensor and licensees of the adherence of others * * *" (*United States* v. *United States Gypsum Co.*, 333 U.S. 364, 389; "the concert of action [was] established by the favored licensee clause of the standard license agreement" (*United States* v. *United States Gypsum Co.*, 340 U.S. 76, 83). Although this Court found it unnecessary in *Gypsum* to decide "whether a plurality of licenses, each containing a price-fixing provision, violates the Sherman Act" (340 U.S. at 85), the Third Circuit subsequently held that a patentee violated the Sherman Act by issuing price-fixing licenses to two of the other four firms in the industry. *Newburgh Moire Co.* v. *Superior Moire Company*, 237 F. 2d 283.[18]

b. The question has also arisen as to the relationship which the patent must bear to the article sold by the licensee in order to justify the patentee in regulating its price. The circuits are divided over whether a licensor may control the price of an unpatented article through a license of a patent covering the machine or process used to produce it, with a majority holding

[17] *United States* v. *New Wrinkle, Inc.*, 342 U.S. 371; *United States* v. *United States Gypsum Co.*, 340 U.S. 76, 84; *United States* v. *United States Gypsum Co.*, 333 U.S. 364; *United States* v. *Masonite Corp.*, 316 U.S. 265.

[18] The Fourth Circuit previously had indicated the contrary view. See *Westinghouse Electric* v. *Bulldog Electric Products Co.*, 179 F. 2d 139, 143 (dictum).

that he may not.[19] Similarly, the courts are divided over whether the patentee may by license regulate the price of an article only part of which—albeit a valuable and essential part—is covered by the patent; two different district courts took conflicting views with regard to the same patents and licensees. Compare *General Electric Co.* v. *Willey's Carbide Tool Company,* 33 F. Supp. 969, 977 (E.D. Mich.) with *United States* v. *General Electric Co.,* 80 F. Supp. 989, 1004–1005 (S.D.N.Y.); see, also, *United States* v. *General Electric Co.,* 82 F. Supp. 753, 813 (D. N.J.).

The effect of *General Electric* in both of these areas is unclear. Substantial litigation would be required before those issues were resolved, and certainly before the many other questions arising out of the application of *General Electric* to a wide variety of factual situations could be definitively settled.

2. The many limitations which have been engrafted upon the *General Electric* rule, however, have by no means rendered it harmless to the public interest. As we have shown, the decision is a source of confusion and uncertainty and is of little practical value as a guide for formulating business policies. At the same time it is a standing invitation to price-fixing by those willing to take a chance. Experience has shown that the privilege of fixing a licensee's price, however limited, readily leads to abuse. *General Electric* has been invoked in support of a multitude of restrictive

[19] *Cummer-Graham Co.* v. *Straight Side Basket Corp.*, 142 F. 2d 646 (C.A. 5); *Barber-Colman Co.* v. *National Tool Co.*, 136 F. 2d 339 (C.A. 6); cf. *American Equipment Co.* v. *Tuthill Bldg. Material Co.*, 69 F. 2d 406 (C.A. 7). Contra: *Straight Side Basket Corp.* v. *Webster Basket Co.*, 82 F. 2d 245 (C.A. 2).

schemes, the variety and comprehensiveness of which are recorded in the decisions of this Court. They have included efforts to control the price of optical lenses at the distribution level by parcelling out "manufacturing licenses" to wholesalers and retailers who ground the lens blanks;[20] complex licensing arrangements designed to regulate the prices and practices of thousands of wholesale jobbers of gasoline;[21] industry-wide patent licensing systems aimed at regulating prices for wallboard and for a specialty paint;[22] and cross-licensing agreements giving one patentee a right to fix prices under another's patent on heavy duty fuses.[23] While in each case the Court eventually condemned the arrangement as going beyond the limited privilege conferred by *General Electric*, the public has doubtless paid a heavy toll in the meantime.

The restrictive licensing schemes which have reached this Court represent only a small portion of those whose validity has been litigated in the lower federal courts since the *General Electric* decision. Nine such cases were pending at the time of the *Line Material* decision and are described in the Court's opinion (333 U.S. at 301–302), but none came before this Court for resolution.[24] Other cases filed by the

---

[20] *United States* v. *Univis Lens Co., Inc.*, 316 U.S. 241.

[21] *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436.

[22] *United States* v. *United States Gypsum Co.*, 333 U.S. 364; *United States* v. *New Wrinkle, Inc.*, 340 U.S. 371.

[23] *United States* v. *Line Material Co.*, 333 U.S. 287.

[24] One was later dismissed on plaintiff's motion because of the cessation of the alleged violation (*United States* v. *Catalin Corp. of America, Civ.* 7743, D.N.J.); one resulted in a summary judgment against one conspirator (*United States* v. *Bausch &*

United States in the intervening years were similarly disposed of without appeal to this Court.[25] As long as the *General Electric* rule retains any vitality, patentees will continue to devise and utilize price-fixing schemes

---

*Lomb Optical Co.*, Civ. 10–394, S.D.N.Y.; the remaining defendants were later dismissed); four ended with consent judgments against most or all of the defendants (*United States* v. *General Cable Corp.*, Civ. 40–76, S.D.N.Y.; *United States* v. *Phillips Screw Co.*, Civ. 47–C–147, N.D. Ill.; *United States* v. *American Optical Co.*, Civ. 10–391, S.D.N.Y.; *United States* v. *Allegheny Ludlum Steel Corp.*, Civ. 45–83, D.N.J.); one ended with pleas of *nolo contendere* and $48,000 in fines (*United States* v. *General Instrument Corp.*, Cr. 3960, D.N.J.); the companion civil case resulted in a litigated decree for the government, reported in 87 F. Supp. 157 (D.N.J.); one in a finding of guilty and fines of $56,000 (*United States* v. *General Electric Co.*, Cr. 110–412, 80 F. Supp. 989 (S.D.N.Y., 1948); and one, *United States* v. *General Electric Co.*, Civil 1364, 82 F. Supp. 753 (D.N.J. 1949), resulted in a litigated decree enjoining the General Electric Company from conspiring with Westinghouse and others to restrain trade and monopolize the incandescent electric lamp industry.

[25] These cases included *United States* v. *Minnesota Mining & Mfg. Co.* (Civ. 8–119, D. Mass., 1949), involving patent license agreements among the manufacturers of sandpaper and other coated abrasives, settled by consent decree in 1950; *United States* v. *Driver-Harris Co.* (Civ. 942–56, D.N.J., 1956), involving patent license agreements among manufacturers of electrical alloy resistance wire, settled by consent decree in 1964; *United States* v. *Austenal Laboratories, Inc.* (Civ. 50–496, S.D.N.Y., 1949), involving patent license agreements among manufacturers of patented dentures, settled by consent decree in 1951; *United States* v. *Michigan Tool Co.* (Crim. 33671 and Civ. 12605, E.D. Mich., 1953), involving patent license agreements among manufacturers of machines for cutting, shaping and finishing gears, concluded by *nolo contendere* pleas and a consent decree in 1956; *United States* v. *Scott & Williams, Inc.* (Civ. 54–358, S.D.N.Y., 1949), involving patent license agreements among manufacturers of seamless hosiery machinery, set-

in patent licenses that appear to hold out any promise of being upheld. Perhaps all or most of such schemes ultimately will be invalidated. But in the interval the public will be denied the benefits of substantial price competition whose elimination is improper, and businessmen will have to undergo substantial and expensive litigation to protect their right to be free from such restrictions.

In conclusion, the *General Electric* decision is erroneous in principle, obscure and uncertain in its application, damaging in its effect upon competition, and readily susceptible of abuse. The considerations which normally make the Court reluctant to disturb established legal rules are here almost totally absent. We urge, therefore, that the Court reconsider this decision and overrule it.

---

tled by consent decree in 1954; and *United States* v. *Robertshaw-Fulton Controls Co.* (Civ. 14745, W.D. Pa., 1956), involving a patent license agreement between two manufacturers of temperature controls for gas ranges, settled by consent decree in 1957. *United States* v. *Krasnov*, 143 F. Supp. 184 (E.D. Pa., 1956), held unlawful an arrangement by which two manufacturers of slip covers cross-licensed patents and agreed to collaborate in the selection of future licensees, the bringing of infringement suits and the setting of prices. The district court there held that the agreement was beyond the scope of the *General Electric* rule, since it "operated clearly for the benefit of the patentee and licensee", and this Court affirmed *per curiam*, 355 U.S. 5. A criminal action against the same defendants was terminated upon pleas of *nolo contendere* (Crim. 15754, E.D. Pa.). In still another action now pending a multi-count indictment charges price fixing in patent licenses relating to pressure sensitive tape, magnetic recording tape, magnetic recording media and certain lithographic plates. (*United States* v. *Minnesota Mining & Mfg. Co.*, Crim. 61-73-D, E.D. Ill., 1961.)

C. THIS COURT SHOULD NOT DECLINE TO OVERRULE *GENERAL ELECTRIC* BECAUSE OF THE DISTRICT COURT'S FINDING THAT THE GOVERNMENT STATED THAT IT WAS NOT SEEKING SUCH OVERRULING

Subsequent to entry of the judgment below and filing of the notice of appeal, the district court granted the defendants' motion to supplement the record by adding two pre-trial orders. These orders had been drafted by that court in 1962, submitted to counsel for suggestions, and signed by Judge Machrowicz, but (contrary to the belief of all counsel) had not been entered on the record. The government did not object to this much of the motion. In addition, at the request of defendants and over the government's objection, the district court added the following statement to one of the pretrial orders (see R. 773–778):

> On October 15, reporting on the applicability of the General Electric case, the Government stated that it is not attempting to have the doctrine set in the General Electric case overruled and stated only that facts in this case do not fall within that doctrine; that the doctrine is still good law but does not apply as the actions in this case are illegal without application of the doctrine; and that it will write a letter by December 29, describing in what way the facts of this case differ from the facts of the General Electric case. A copy of the letter to the Court, dated October 30, 1962, from the Assistant Attorney General of the United States, Antitrust Division of the Department of Justice, is attached hereto and made a part hereof [R. 778].[26]

[26] The letter to which the court referred set forth the government's reasons for concluding that this case did not come within the *General Electric* doctrine (R. 779–781).

The court stated (R. 778) that this recital "correctly relates events which occurred on October 15, 1962."

Appellees presumably will argue, as they did in their motion to affirm (pp. 10–18), that this finding forecloses the government from now urging that *General Electric* should be overruled. Although we strongly opposed such amendment of the pre-trial order (See R. 740–749, 754–759), we do not seek to overturn the finding it contains as clearly erroneous. We do submit, however, that the government is not barred because of this finding from urging that *General Electric* should be overruled; in any event, as appellees themselves recognize (Motion to Affirm 12), such a statement by the government would not create any jurisdictional bar to the Court considering the issue.

Appellees were not prejudiced in any way by their belief that the government would not challenge *General Electric*. The only factual issue before the district court was whether, as the government contended and its witness testified, Huck and Townsend had supplemented their written agreement, under which Townsend received an exclusive license for two years and undertook to observe Huck's prices during that period, with an oral understanding that prices would continue to be fixed so long as the license remained exclusive. The only legal issue before the district court—and, indeed, the only such issue that that court could decide as the case came before it—was whether, if there had been such an oral agreement, it was covered by the *General Electric* rule. Since the dis-

trict court dismissed the complaint at the close of the government's case, appellees cannot claim that they refrained from introducing any evidence relating to these two issues that they might otherwise have presented had they believed that the government would challenge *General Electric.*

Nor can appellees demonstrate that they were prejudiced because they would have followed different trial tactics and strategy if they had thought that the government would challenge *General Electric.* For whether this Court should overrule one of its own decisions depends upon broad considerations of public policy, and obviously does not turn upon the facts of the particular case in which it is urged to do so. Appellees can make in this Court all legal arguments as to why *General Electric* should not be overruled. To the extent that arguments on this broad legal issue may rest on material or data that are not part of the record, appellees may follow the usual practice in cases of this kind of presenting such material in their brief.

This is not the ordinary case in which a party's failure in the lower court to make an argument which might have been dispositive bars it from raising the point at the appellate level. Cf. *Hormel* v. *Helvering,* 312 U.S. 552, 556–558. In this case the government presented to the district court every issue which that court could decide. Appellees were not prejudiced in connection with the government's presentation of evidence on those issues by any belief they may have had that the government on an appeal to this Court would not raise here another issue which only this Court could decide.

## II

### IN ANY EVENT, THE AGREEMENT THAT TOWNSEND WOULD FOLLOW HUCK'S PRICES AS LONG AS IT REMAINED THE SOLE LICENSEE, AND THAT HUCK WOULD GRANT NO OTHER LICENSES AS LONG AS TOWNSEND FOLLOWED ITS PRICES, WAS AN ILLEGAL RESTRAINT OF TRADE WHICH *GENERAL ELECTRIC* DOES NOT SANCTION

The record shows that Huck wanted Townsend to observe its prices because the latter was a low-cost producer.[27] It also shows that Townsend wanted to be the sole licensee for the life of the patents on products which the companies wanted to make.[28] The written agreement provided that Huck would grant no other licenses for two years, and that Townsend would follow Huck's prices during that period.[29] Townsend's representative, however, orally proposed that it would continue to observe the Huck prices for the duration of the agreement (which was for the life of the last patent licensed), if Huck granted no additional licenses.[30] Huck's representatives responded that it would not issue any more licenses on products which either company wished to manufacture if Townsend adhered to Huck's price structure.[31]

This arrangement, we submit, is not sanctioned by the *General Electric* rule, and is unlawful *per se*. The price fixing cannot be justified as "normally and

---

[27] R. 193.

[28] R. 67.

[29] R. 472 (GX 17, par. 12).

[30] R. 67. The licensed "patents" included those to be issued on pending application and on improvements (R. 469, 470). Cf. *Brulotte* v. *Thys*, 379 U.S. 29.

[31] R. 70.

reasonably adapted to secure pecuniary reward for the patentee's monopoly" (*United States* v. *General Electric,* 272 U.S. at 490), since Townsend undertook to follow Huck's prices not in return for the right to use Huck's patents (which it would continue to have whether or not it followed such prices), but to assure that Huck would not license anyone else. Huck's commitment to grant no additional licenses was not an exercise of its power to exclude, but a limitation upon that power which it assumed in return for its licensee's price fixing commitment. Any agreement whereby the patentee surrenders his freedom to license others is of doubtful validity even when price fixing is not involved. See *United States* v. *Besser Manufacturing Company,* 96 F. Supp. 304, 311 (E.D. Mich.), affirmed, 343 U.S. 444; *United States* v. *Krasnov,* 143 F. Supp. 184, 201–202 (E.D. Pa.), affirmed, 355 U.S. 5; cf. *Blount Mfg. Co.* v. *Yale & Towne Mfg. Co.,* 166 Fed. 555, 559 (D. Mass.). *A fortiori,* such an agreement cannot justify an agreement to fix prices.

Moreover, as a practical matter, such a loose and informal surrender of the patentee's freedom to license in return for a price-fixing agreement inevitably invites concerted action in regulating access to the patents. For whenever Huck might otherwise be inclined to grant a license, it would inevitably be most reluctant to do so over Townsend's objection, and thus run the risk of price-cutting by the latter. At the same time Huck naturally would seek Townsend's agreement to the issuance of a new license that might be advantageous to Townsend. Just as "lawful in-

dividual monopolies granted by the patent statutes cannot be unitedly exercised to restrain competition" (*Standard Oil Co.* v. *United States,* 283 U.S. 163, 174), so competitors may not share the power to exclude which the patent laws give only to the owner of a patent. *United States* v. *Line Material,* 333 U.S. 287, 311; *United States* v. *Terminal Railroad Assn.,* 224 U.S. 383; *Associated Press* v. *United States,* 326 U.S. 1; *Klor's* v. *Broadway-Hale Stores,* 359 U.S. 207.

This Court, because of the anticompetitive implications of the *General Electric* decision, has consistently given it a narrow scope (see *supra,* pp. 39–41, 43). In keeping with that approach, the *General Electric* rule should not be permitted to sanction a license agreement in which price fixing is combined with a patentee's commitment not to deal with others, these restraints serving as reciprocal inducements.

## CONCLUSION

The judgment of the district court should be reversed, and the cause should be remanded for further proceedings.

Respectfully submitted.

RALPH S. SPRITZER,
*Acting Solicitor General.*
DONALD F. TURNER,
*Assistant Attorney General.*
FRANK GOODMAN,
*Assistant to the Solicitor General.*
ROBERT B. HUMMEL,
JON D. HARTMAN,
*Attorneys.*

AUGUST 1965.

U.S. GOVERNMENT PRINTING OFFICE: 1965